

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Bingham Arts Academy Charter School</b>	County <b>Alpena</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>8/10/05</b>	Date Accountant Report Submitted to State: <b>11/23/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☒ Yes ☐ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☒ Yes ☐ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

**We have enclosed the following:**

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>16978 S. Riley Avenue</b>	City <b>Kincheloe</b>	State <b>MI</b>	ZIP <b>49788</b>
Accountant Signature 		Date <b>11/23/05</b>	

**Bingham Arts Academy Charter School**

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**Financial Report  
with Supplemental Information**

**June 30, 2005**

## Contents

<b>Independent Auditor’s Report</b>	1 – 2
<b>Administration’s Discussion and Analysis</b>	3 – 9
<b>Basic Financial Statements</b>	
School – wide Financial Statements	
Statement of Net Assets	10
Statement of Activities	11
Fund Financial Statements	
Balance Sheet – Governmental Funds	12
Statement of Revenue, Expenditures, and Changes in Fund Balance – Governmental Funds	13
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Notes to Financial Statements	15 – 26
<b>Required Supplemental Information</b>	
Budgetary Comparison Schedule – General Fund	27
<b>Reports on Compliance</b>	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed In Accordance with <i>Government Auditing Standards</i>	28 – 29
Schedule of Findings and Responses	30 – 31



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
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**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**Independent Auditor's Report**

To the Members of the  
Board of Education  
Bingham Arts Academy Charter School  
Alpena, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and aggregate remaining fund information of Bingham Arts Academy Charter School for the period of inception to June 30, 2005, which collectively comprise the Bingham Arts Academy Charter School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Bingham Arts Academy Charter School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Michigan School Auditing Manual. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of the Bingham Arts Academy Charter School as of June 30, 2005, and the respective changes in financial position, thereof for the initial period then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Bingham Arts Academy Charter School will continue as a going concern. As discussed in Note 13 to the financial statements, the Academy's significant operating losses raise substantial doubt about its ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Board of Education  
Bingham Arts Academy Charter School

As described in Note 1, the School adopted the provisions of the Government Accounting Standards Board Statement No. 34, *Basic Financial statements – and Administration’s Discussion and Analysis – For State and Local Governments* and Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as of July 1, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2005, on our consideration of Bingham Arts Academy Charter School’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Administration’s Discussion and Analysis and the required supplemental information identified in the Table of Contents are not a required part of the basic financial statements but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Bingham Arts Academy Charter School. The accompanying information identified in the Table of Contents, and other supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to basic financial statements.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 10, 2005

## **Administration's Discussion and Analysis**

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Bingham Academy is a K-5 Charter School Academy located in Alpena, Michigan. This Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Bingham Academy administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2005. Because this is the first year of implementation a comparative analysis cannot be performed. A comparative analysis will be provided in future years.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Academy-wide Financial Statements and Fund Financial Statements.

### **Fund Financial Statements:**

For the most part, the fund financial statements are comparable to general purpose financial statements. The primary difference is that the Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the Academy's major instruction and instructional support activities are reported in the General Fund. Additional governmental activities are reported in their relevant Special Revenue Funds.

In the fund financial statement, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

### **Academy-wide Financial Statements:**

The Academy-wide financial statements are maintained using the "full accrual" basis. They report all of the Academy's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the Academy are reported in the Statement of Net Assets of the Academy-wide financial statements.

**FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE****Summary of Net Assets:**

The following summarizes the net assets at fiscal year ended June 30, 2005:

**Net Assets Summary**

	<b>2005</b>
<b>Assets</b>	
Current assets	<u>\$ 143,815</u>
Capital assets	97,621
Less: accumulated depreciation	<u>(8,138)</u>
Capital assets, net book value	<u>89,483</u>
Total assets	<u><u>\$ 233,298</u></u>
<b>Liabilities</b>	
Current liabilities	\$ 608,695
Long-term liabilities	<u>5,086</u>
Total liabilities	<u><u>\$ 613,781</u></u>
<b>Net assets</b>	
Invested in capital assets, net of related debt	\$ 48,106
Unrestricted	<u>(428,589)</u>
Total net assets	<u><u>\$ (380,483)</u></u>

**FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS**

During fiscal year ended June 30, 2005, the Academy's net assets decreased by \$380,483. The most significant cause of the decrease was the board's desire to open the Academy with a program that would be attractive to the families of the area and to offer services and student: staff ratios necessary to accelerate learning of students faster than the traditional single grade level gains. At the onset of planning for the opening of the Academy, management and the board carefully calculated the costs and risks associated with offering a high quality educational program that would be competitive with the educational programs available at the traditional public schools and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, the board and it's management made the decision to make an investment in the future of the children of this community, not based on a plan that was expected to generate large economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form of enhanced opportunities for children and families. Resources for the necessary programs came from delaying payment on invoices from the Academy's management company for certain rent, management services, and invoices for payroll of school staff. The board is planning on entering into a multi-year financing arrangement to spread these costs over the next five years. Additional factors affecting the change in net assets during the year are discussed below:



**A. Results of Operations:**

For the fiscal year ended June 30, 2005, the Academy wide results of operations were:

	<b>2005</b>	
	<b>Amount</b>	<b>% of Total</b>
<b>General revenue:</b>		
State of Michigan aid - all sources	\$ 555,542	95.27%
<b>Program revenue:</b>		
Charges for services	11,870	2.04%
Operating grants - federal and state	15,686	2.69%
Total program revenue	27,556	4.73%
Total revenue	583,098	100.00%
<b>Expenses:</b>		
Instruction and instructional services	430,218	44.65%
Support services	486,397	50.48%
Food service and after school Oasis program	27,906	2.90%
Interest on long-term debt	10,922	1.13%
Depreciation (unallocated)	8,138	0.84%
Total expenses	963,581	100.00%
Increase (decrease) in net assets	\$ (380,483)	

**B. State of Michigan Aid, Unrestricted**

The State of Michigan aid, unrestricted is determined by the following variables:

- **Per Student, Foundation Allowance:** Annually, the State of Michigan sets the per student foundation allowance. The Bingham Academy foundation allowance was \$6,700 per student for the 2004 - 2005 school year.
- **Student Enrollment:** The Academy's student enrollment for the fall count of 2004 - 2005 was 81 students. To calculate total state aid to be provided by the foundation allowance during the first two years of operations, the State uses a formula that uses a blended enrollment of 50% of the current year fall count and 50% of the current year winter count. For subsequent years, a blend of 75% of current year fall count and 25% of the previous year winter count is multiplied by the Academy's foundation allowance.

Subsequent to June 30, 2005, preliminary student enrollments for 2005 - 2006 indicate that the 2005 fall student enrollment will be significantly higher than the 2004 - 2005 levels.

**C. General Fund Budgetary Highlights****General Fund Operations**

The Academy's expenditures and other financing uses from General Fund operations exceeded revenues and other financing sources by \$428,589 for the fiscal year ended June 30, 2005. During the fiscal year ended June 30, 2005, the board invested heavily in the future of the Academy by providing the services necessary to produce significant academic achievement gains and to ensure the families in this community that there is a serious dedication to ensuring that children receive a high quality education. We believe that the board's calculated investment together with careful planning and budgeting going forward has positioned the Academy to be able to move forward with energy and stamina to continue to provide a safe, attractive and challenging educational environment that has and will continue to positively impact the youth in the Alpena community.

**Final Budget vs. Actual**

<u>Fiscal Year</u>	<u>Final Budget</u>	<u>Final Actual</u>
Revenues		
2004-2005	\$ 1,083,862	\$ 638,560
2005-2006 (projected)	\$ 1,223,826	
Expenditures		
2004-2005	\$ 1,081,714	\$ 1,067,149
2005-2006 (projected)	\$ 1,222,932	

**Original vs. Final Budget**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Bingham Academy amends its budget periodically as needed during the school year. For the fiscal year 2004 - 2005, the budget was amended in April 2005. The April 2005 budget amendment was the final budget for the fiscal year. The Bingham Academy Board does not budget for expenditures covered by grants or for the grant revenue until an award allocation is received. The General Fund does not budget for debt financed capital outlays, if applicable, in the original budget.

**Change from Original to Final General Fund Budget****Revenues:**

Total Revenues - Original Budget	\$ 1,220,350
Total Revenues - Final Budget	<u>1,083,862</u>
Decrease in Budgeted Revenues	<u>\$ 136,488</u>

The Academy's final general fund revenues were less than the final budget by \$ 445,302, a variance of 41.1%. This variance was primarily a result of the board not approving the note process until after year end. This is primarily a timing difference as the note is expected to be executed during the 2004-05 fiscal year generating a surplus sufficient to offset the fund balance deficit at June 30, 2005. Had the note been executed, general fund revenues would have been less than budget by \$ 10,302, a variance of 1.0%.

The following are the significant changes in revenues from the original budget:

- Original budget had estimated an enrollment of 150 students and fall 2004 actual enrollment was 86.
- Adjustment to actual grant allocations since estimates were used in the original budget.
- Increase in operational loan as a result of the decrease in enrolled students.

**Expenditures:**

The Academy's budget for expenditures changed as follows during the year:

Total Expenditures - Original Budget	\$ 1,213,354
Total Expenditures - Final Budget	<u>1,081,714</u>
Decrease in Budgeted Expenditures	<u>\$ 131,640</u>

The Academy's actual expenditures were less than final budget by \$ 14,565 a variance of 1.3%. This variance was primarily a result a decision to carryover federal and state grant awards together with overspending advertising and utilities budgets.

The following are the significant changes in expenditures from the original budget:

- Adjustment in grant expenditures as final grant allocations were awarded.
- Reduction in staff to reflect actual students enrolled.
- Reduced authorizer and management fees resulting from decrease in revenues.

**CAPITAL ASSETS AND DEBT ADMINISTRATION****A. Capital Assets**

The Academy's net capital assets increased by \$89,483 during the fiscal year. This can be summarized as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Depreciable capital assts	\$ -	\$ 97,621	\$ -	\$ 97,621
Less: accumulated depreciation	-	(8,138)	-	(8,138)
Net capital assets	<u>\$ -</u>	<u>\$ 89,483</u>	<u>\$ -</u>	<u>\$ 89,483</u>

**B. Depreciation Expense**

GASB 34 requires Charter School Academies to maintain a record of annual depreciation expense and accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets in the entity wide financial statements. Depreciation is not recognized in the fund financial statements and has been noted as a reconciling item in the Academy's financial statements.

For fiscal year ended June 30, 2005, the net increase in accumulated depreciation was \$ 8,138.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value.

**C. Debt, Principal Payments**

A summary of long-term debt service activities is as follows.

	<u>Beginning Balance</u>	<u>New Financings</u>	<u>Principal Payments</u>	<u>Ending Balance</u>
Capital lease obligations	<u>\$ -</u>	<u>\$ 77,531</u>	<u>\$ 36,154</u>	<u>\$ 41,377</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Preliminary Budget for the 2005-06 Fiscal Year required certain estimates and assumptions be made as the budget was being drafted. These estimates and assumptions were based on current information available to the board and management. Some key factors and estimates used in the 2005-06 budget preparation process include:

- The State Aid foundation had been estimated to be \$6,875 per pupil;
- Enrollment projections of 150 students in grades k-6;
- Teaching staff, at a maximum, would provide one teacher for every 25 students;
- Benefit costs would be based on group coverage rates through the Michigan Chamber of Commerce.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to School Districts and Charter School Academies. The State periodically holds revenue-estimating conferences to estimate what the State's available resources will be throughout the remainder of its fiscal year. Based on the results of the most recent conference, the State has estimated that funds will be sufficient to fund current appropriations.

**CONTACTING THE ACADEMY'S MANAGEMENT**

This financial report is designed to provide our citizens and taxpayers with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Administration Office, Bingham Academy, 555 S. 5<sup>th</sup> Ave, Alpena, Michigan.

## **Basic Financial Statements**

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**Bingham Arts Academy Charter School****Statement of Net Assets  
June 30, 2005**

	Governmental Activities
<hr/>	
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 28,969
Due from other governmental units	99,382
Accounts receivable	12,048
Prepaid expenditures	3,416
	<hr/>
Total current assets	143,815
	<hr/>
<b>Noncurrent Assets</b>	
Capital assets	97,621
Less: accumulated depreciation	(8,138)
	<hr/>
Total noncurrent assets	89,483
	<hr/>
Total assets	\$ 233,298
	<hr/> <hr/>
<b>Liabilities and Net Assets</b>	
<b>Current Liabilities</b>	
Accounts payable	\$ 529,437
Accrued salaries and withholding	41,861
Deferred revenue	1,106
Lease payable - due within one year	36,291
	<hr/>
Total current liabilities	608,695
	<hr/>
<b>Noncurrent Liabilities</b>	
Lease payable	5,086
	<hr/>
Total noncurrent liabilities	5,086
	<hr/>
Total liabilities	613,781
	<hr/>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	48,106
Unrestricted	(428,589)
	<hr/>
Total net assets	(380,483)
	<hr/>
Total liabilities and net assets	\$ 233,298
	<hr/> <hr/>

**Statement of Activities**  
**Year Ended June 30, 2005**

		Program Revenues		Governmental
		Charges for Services	Operating Grants	Activities Net (Expense) Revenue and Changes in Net Assets
	Expenses			
<b>Functions/Programs</b>				
Government Activities:				
Instruction and Instructional Services	\$ 430,218	\$ 5,487	\$ -	\$ (424,731)
Support services	486,397	-	-	(486,397)
Food services	24,887	4,816	15,686	(4,385)
Oasis	3,019	1,567	-	(1,452)
Interest on long-term debt	10,922	-	-	(10,922)
Depreciation (Unallocated)	8,138	-	-	(8,138)
Total Governmental Activities	<u>\$ 963,581</u>	<u>\$ 11,870</u>	<u>\$ 15,686</u>	(936,025)
General Revenues:				
State of Michigan aid, unrestricted				<u>555,542</u>
Total general revenues				<u>555,542</u>
<b>Change in Net Assets</b>				(380,483)
Net assets:				
Beginning of year				<u>-</u>
End of year				<u>\$ (380,483)</u>



# Bingham Arts Academy Charter School

## Balance Sheet Governmental funds June 30, 2005

	General	Food Services	Oasis	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 27,009	\$ 1,960	\$ -	\$ 28,969
Due from other governmental units	98,217	1,165	-	99,382
Due from other funds	3,458	-	-	3,458
Accounts receivable	11,715	274	59	12,048
Prepaid expenses	3,416	-	-	3,416
Total Assets	<u>\$ 143,815</u>	<u>\$ 3,399</u>	<u>\$ 59</u>	<u>\$ 147,273</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 529,437	\$ -	\$ -	\$ 529,437
Accrued salaries and withholdings	41,861	-	-	41,861
Due to other funds	-	3,399	59	3,458
Deferred revenue	1,106	-	-	1,106
Total liabilities	<u>572,404</u>	<u>3,399</u>	<u>59</u>	<u>575,862</u>
<b>Fund Balances</b>				
Unreserved and undesignated	(428,589)	-	-	(428,589)
Designated, food services	-	-	-	-
Total fund balances	<u>(428,589)</u>	<u>-</u>	<u>-</u>	<u>(428,589)</u>
Total liabilities and fund balances	<u>\$ 143,815</u>	<u>\$ 3,399</u>	<u>\$ 59</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and are not reported in the funds.

The cost of the capital assets is	\$ 97,621
Accumulated depreciation is	<u>(8,138)</u>

89,483

Long term liabilities are not due and payable in the current period and are not reported in the funds:

Leases payable	<u>(41,377)</u>
Net assets of governmental activities	<u>\$ (380,483)</u>

# Bingham Arts Academy Charter School

## Statement of Revenue, Expenditures, and Changes in Fund Balances Governmental Funds Year Ended June 30, 2005

	General	Food Service	Oasis	Totals
<b>Revenues</b>				
State sources	\$ 555,542	\$ -	\$ -	\$ 555,542
Federal sources	-	15,686	-	15,686
Charges for Services	5,487	4,816	1,567	11,870
Total Revenues	561,029	20,502	1,567	583,098
<b>Expenditures</b>				
Instructional Services:				
Elementary	403,071	-	-	403,071
Special Education	13,751	-	-	13,751
At Risk	16,192	-	-	16,192
Support Services:				
Pupil services	982	-	-	982
General Administration	22,751	-	-	22,751
Executive Administration	86,828	-	-	86,828
School Administration	147,824	-	-	147,824
Business	4,873	-	-	4,873
Operations & Maintenance	316,010	-	-	316,010
Central Services	1,954	-	-	1,954
Other Transactions - Debt	47,076	-	-	47,076
Food Services	-	24,887	-	24,887
Oasis	-	-	3,019	3,019
Total expenditures	1,061,312	24,887	3,019	1,089,218
<b>Excess of Revenues (Expenditures)</b>	(500,283)	(4,385)	(1,452)	(506,120)
<b>Other Financing Sources (Uses)</b>				
Lease proceeds	77,531	-	-	77,531
Operating transfers in	-	4,385	1,452	5,837
Operating transfers out	(5,837)	-	-	(5,837)
Total other financing sources (uses)	71,694	4,385	1,452	77,531
<b>Net Changes in Fund Balances</b>	(428,589)	-	-	(428,589)
<b>Fund Balances - Beginning of year</b>	-	-	-	-
<b>Fund Balances - End of year</b>	\$ (428,589)	\$ -	\$ -	\$ (428,589)

## Bingham Arts Academy Charter School

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### Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

**Net Changes in Fund Balances – Total Governmental Funds** \$ (428,589)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds do not report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.

Capital Outlays	\$ 97,621	
Current Depreciation expense	<u>(8,138)</u>	89,483

Repayments of lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt). 36,154

Lease proceeds are not considered as a financing source in the Statement of Activities. (77,531)

**Change in Net Assets, Statement of Activities** \$ (380,483)

## **Notes to Financial Statements**

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**Note 1 - Summary of Significant Accounting Policies**

Charter School – The Charter School Academy was organized Pursuant to MCL 380.1 ct seg. This Law allows for the School to be eligible for State Aid and must comply with Michigan School Code provisions. The School operates under a grant agreement with the Board of Regents – Bay Mills Community College. The School Board may terminate the operating contract by notification. The College Board of Regents may terminate the operating contract for various failures to comply with laws and regulations, insolvency, bankruptcy, insufficient enrollment, fraud, or if the school operates with a fund balance deficit of two or more fiscal years among other provisions.

The accounting policies of Bingham Arts Academy Charter School conform to U.S. generally accepted accounting principles as applicable to Schools. The following is a summary of the significant accounting policies:

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements-and Administration's Discussion and Analysis-for State and Local Governments*. Certain of the significant changes in the statement include the following:

- An Administration's Discussion and Analysis section providing an analysis of the School's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all the School's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Charter School Academy has elected to implement the provisions of the Statement. The School also implemented GASB#33, *Accounting and Financial Reporting for Nonexchange Transactions*. The pronouncement defines revenue recognition for nonexchange transactions at the fund and governmental levels.

**Reporting Entity**

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing relationships. Based on application of the criteria, the entity does not contain component units. The School also applies Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 to its governmental activities provided they do not conflict with or contradict GASB pronouncements.

**Note 1 - Summary of Significant Accounting Policies (Continued)****Basic Financial Statements – School-wide Statements**

The Academy's basic financial statements include both school-wide (reporting the School as a whole) and fund financial statements (reporting the School's major fund). The school-wide financial statements categorize primary activities as either governmental or business type. All of the School's activities are classified as governmental activities.

In the school-wide Statement of Net Assets, the governmental activities column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Academy's net assets are reported in three parts- invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The School first utilizes restricted resources to finance qualifying activities.

The school-wide Statement of Activities reports both the gross and net cost of each of the School's functions. The functions are also supported by general government revenues (grants, certain intergovernmental revenues, and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (state sources and federal sources, interest income, etc.)

The School does not allocate indirect costs. In creating the school-wide financial statements the School has eliminated interfund transactions.

The school-wide focus is on the sustainability of the School as an entity and the change in the School's net assets resulting from the current year's activities.

**Basic Financial Statements – Fund Financial Statements**

The accounts of the School are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the combined financial statements in this report, into generic fund types in two broad fund categories as follows.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Governmental Funds** – Governmental Funds are those funds through which most School functions typically are financed. The acquisition, use, and balances of the School's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund – The General Fund is used to record the general operations of the School pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved operating budget. The School reports the general fund as its only major fund.

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The Food Service Fund is a Special Revenue Fund that segregates, for administrative purposes, the transactions of a particular activity from regular revenue and expenditure accounts.

**Measurement Focus and Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates the timing of the measurements made regardless of the measurement focus and the governmental-wide statement uses the economic resources measurement focus.

**Accrual**

Governmental activities in the school-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that the principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

**Note 1 - Summary of Significant Accounting Policies (Continued)**

The School reports deferred revenue on its governmental fund balance sheet. Deferred revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the School before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

The State of Michigan utilizes a foundation allowance approach, which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation allowance is funded from a combination of state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The state portion of the foundation is provided from the state’s School Aid Fund and is recognized as revenue in accordance with state law and accounting principles generally accepted in the United States of America.

The School also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

Investments – Investments are recorded at fair value, based on quoted market prices, or estimated fair value.

Inventories – Inventories if present, are stated at cost, on a first-in, first-out basis, which approximates market value. Inventory recorded in the General Fund consists of centrally warehoused teaching and operating supplies for the School. The Food Services Fund inventory consists of food and paper goods. For all funds, expenditures are recorded at the time of use.

Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.



**Note 1 - Summary of Significant Accounting Policies (Continued)**

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Site Improvements	20 – 50 years
Furniture and other equipment	5 – 20 years

Compensated Absences – The liability for compensated absences reported in the school-wide statements consist of unpaid, accumulated annual and vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. There was no liability at year end.

Long-Term Obligations – In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance cost, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Note 2 - Budgets**

The Charter School Academy formally adopted General Fund and Special Revenue Fund budgets by function for the fiscal year ended June 30, 2005. Expenditures at this level in excess of amounts budgeted is a violation of Michigan law. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner. The budget has been prepared in accordance with U.S. generally accepted accounting principles.

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Education) for the General Fund is presented as Required Supplemental Information.

**Note 2 - Budgets (Continued)**

Budget Violations – Public Act 621 of 1978, as amended, requires budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

Expenditures that exceeded appropriations by material amounts are as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Supporting Services	\$ 568,852	\$ 628,298	\$ 59,446

**Note 3 - Deposits and Investments**

**Deposits**

The School School's deposits are deposited in one financial institution. Deposits are carried at cost.

	<u>Insured</u>	<u>Uninsured</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>
Deposits:				
Checking and Savings	\$ 74,165	\$ -	\$ 74,165	\$ 28,469

**Statutory Authority:**

Michigan laws compiled Section 129.91, authorizes the School to deposit and invest in one or more of the following:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution that is eligible to be a depository of funds belonging to the State under a law or rule of this State or the United States.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures not more than 270 days after the date of purchase.
- d. Repurchase agreements consisting of instruments listed in a.
- e. Bankers acceptance of United States banks.
- f. Obligations of this State or any of its political subdivisions that at this time of purchase are rated as investment grade by not less than one standard rating service.

**Note 3 - Deposits and Investments (Continued)**

- g. Mutual funds registered under the investment company act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligation described in a. through g. if purchase through an interlocal agreement under the urban cooperations act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118.
- j. The investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150. The Schools deposits are in accordance with state statutes.

**Investment and Deposit Risk**

*Interest rate risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The School's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* The School's investment policy does not have specific limits in excess of state law on investment credit risk. The School has no investments for which ratings are required.

*Custodial credit risk.* Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned. State law does not require and the School does not have a policy for deposit custodial credit risk. As of year end, \$0 of the School's bank balance of \$74,165 was exposed to credit risk because it was uninsured and uncollateralized.

**Note 4 - Capital Assets**

A summary of changes in governmental capital assets follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Assets (Depreciated)				
Equipment & Furniture	\$ -	\$ 82,419	\$ -	\$ 82,419
Site Improvements	-	15,202	-	15,202
Total Assets (Depreciated)	-	97,621	-	97,621

**Note 4 - Capital Assets (Continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Less Accumulated Depreciation for Equipment & Furniture	-	7,758	-	7,758
Site Improvements	-	380	-	380
Subtotal	-	8,138	-	8,138
Net Capital Assets Depreciated	-	89,483	-	89,483
Total Net Capital Assets	<u>\$ -</u>	<u>\$ 89,483</u>	<u>\$ -</u>	<u>\$ 89,483</u>

Depreciation for the fiscal year ended June 30, 2005 amounted to \$8,138. The School determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

**Note 5 - Management Agreement**

The charter school executed a management agreement on August 8, 2003 with Mosaica Education, Inc. (MEI) to provide educational services and certain administrative services for the Charter school academy. The term of the agreement ends on the last school day of the 2010-2011 school year or upon termination of the charter and may be renewed. The agreement requires compensation to MEI based on an annual fee equivalent to 12.5% of the state, federal and local school funds. Additionally, the academy agrees to reimburse MEI for all costs incurred and paid by MEI in providing educational and administrative services to the School. MEI employs all personnel of the school including teachers, the Chief Administrative Officer and support staff. At year end the School owed MEI, \$478,588 for contract services.

**Note 6 - Interfund Receivable and Payables**

The School reports interfund balances between many of its funds. Some of the balances are considered immaterial and are aggregated into a single column or row. The total of all balances agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and fiduciary funds. Interfund transactions resulting in interfund Receivables and Payable are as follows:

<b>DUE FROM OTHER</b>	<b>DUE TO OTHER FUNDS</b>	
		<u>General Fund</u>
Oasis	\$	59
Food Service		<u>3,399</u>
Total	\$	<u>3,458</u>

**Note 7 - Risk Management**

The School District is exposed to risks of loss related to property loss, torts, errors and omissions, employee injuries (worker's compensation) as well as medical benefits provided to employees. The School District has purchased commercial insurance for claims relating to worker's compensation and property/casualty claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past fiscal year.

**Note 8 - Commitments and Contingencies**Grants

The Charter School has received significant assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School. However, in the opinion of management, any such disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the School at June 30, 2005.

Management Agreement

The Charter School Academy is obligated to pay under the terms of the Management Agreement through fiscal 2010-2011. Further information is contained in Note 5.

**Note 9 - Due From Other Governmental Units**

Amounts due from other governmental units consist of \$98,217 in revenues due from state sources. These revenues represent amounts used for the operation of special programs and grant projects, as well as for the final payment of 2005 state aid which was not received until after year-end due to the state aid payment schedule.

**Note 10 - Leases**

The School has executed two noncancelable capital leases for computers and phone equipment as follows:

Interest Rate		7%		7%
Cost	\$	69,283	\$	8,248
Term (in months)		8		60
Monthly Payment	\$	17,725	\$	200

**Note 10 - Leases (Continued)**

	<u>Total Payments</u>	
2006	\$ 34,945	\$ 2,405
2007	-	2,405
2008	-	2,405
2009	-	2,405
2010	-	<u>200</u>
Amount representing interest	<u>(303)</u>	<u>(3,085)</u>
Minimum Lease Value	<u>\$ 34,642</u>	<u>\$ 6,735</u>

Operating Leases

The charter school executed an operating sublease with Educational Properties Company, LLC, a subsidiary of Mosaica Education, Inc., the school's management company for buildings, parking areas and grounds located in Alpena, Michigan. The lease expires on August 15, 2012. It is anticipated that the lease will be renewed in future years. Rent paid during fiscal 2005 was \$141,000 in accordance with the terms of the lease.

**Note 11 - School Funding**

The Bingham Arts Academy Charter School received approximately \$6,700 per student for basic State aid foundation for the 2004-2005 school year for the 81 enrolled students.

**Note 12 - Related Party Transactions**

The Charter School Academy has a purchase service agreement with Mosaica Education, Inc., for management services, teaching services, fringe benefits and other expenses. These transactions included the following items during the period ended June 30, 2005:

Purchased Services:	
Salaries	\$ 365,400
Benefits	47,172
Fees	70,129
Accounts Payable	\$ 478,588

**Note 13 - Going Concern Significant Operating Loss:**

The School's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

In its first year of operation the school incurred a net loss of \$380,483 for the year ended June 30, 2005. The loss has reduced working capital and fund balance to the extent that the School may not be able to continue as a going concern.

Management and the board have initiated a deficit reduction plan that is primarily centered on prudent cost containment and entering into an agreement to structure a multi-year repayment plan for open invoices between the Academy and the Academy's management company, Mosaica Education, Inc., as of June 30, 2005 in an amount equal to the Academy's FY 2004-05 deficit. The arrangement provides the Academy the ability to continue keeping current on its obligations going forward. In June 2005, the board approved a conservative and balanced operating budget for FY 2005-06 that was based on a number of projected assumptions relating to revenues. Subsequent to year end, these projected assumptions have proven to be accurate and the board and management will continue to monitor the budget on an ongoing basis to be alert to any issues that might require modification to the board budget. Management has also developed a five year forecast with the input of administration that demonstrates how the Academy can be successful in retirement of the Academy's first year deficit obligations under the deficit reduction plan. The State of Michigan, the Academy's Authorizer, the board and management will partner in monitoring the deficit reduction plan and the progress the Academy is making at meeting its goals along the way.

Management and the board have no intentions of discontinuing operations. In fact, management and the board are very excited about the tremendous success Bingham Academy has seen and continues to see in meeting the need for educational alternatives to traditional public education that are evident in the Alpena community. Management and the board clearly understood that in order for the Academy to be attractive to parents and students, certain programmatic and facility opportunities had to be made available to the children of this community. At the onset of planning for the opening of Bingham Academy, management and the board carefully calculated the cost and risks associated with offering a high quality educational program that would be competitive with the educational program available at the traditional public school district and weighed those costs and risks against the enhanced educational opportunities that would be available to students. Based on that analysis, the board and its management made the decision to make an investment in the future of the children of this community not based on a plan that was expected to generate large economic profits, but rather on a plan that is economically sustainable and that would generate dividends to the community in the form enhanced opportunities for children and families. The board and the Academy's management are committed to the future of the children of this community and this calculated investment together with careful planning and practice has and will continue to pay off in academic gains for students and parents for years to come for families that decide to exercise their opportunity of choice between the traditional district and those opportunities made available by the creation of this charter school in this community.

**Note 13 - Going Concern Significant Operating Loss: (Continued)**

The ability of the School to continue as a going concern is dependent upon the success of these actions and the economic recovery of the State as a whole.

The financial statements do not include any adjustments relating to the recoverability of recorded asset or liability amounts that might be necessary should the School be unable to continue as a going concern.



## **Required Supplemental Information**

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# Bingham Arts Academy Charter School

## Required Supplemental Information Budgetary Comparison Schedule General Fund Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Local Sources	\$ -	\$ 1,800	\$ 5,487	\$ 3,687
State Sources	1,027,500	556,657	555,542	(1,115)
Federal Sources	192,850	26,405	-	(26,405)
Total Revenues	1,220,350	584,862	561,029	(23,833)
<b>Expenditures:</b>				
Instructional Services:				
Elementary	324,300	444,279	403,071	41,208
Special Education	22,495	18,750	13,751	4,999
At Risk	30,000	31,683	16,192	15,491
Other Instruction	192,850	10,650	-	10,650
Support Services:				
Pupil Services	6,000	6,000	982	5,018
General Administration	3,000	21,000	22,751	(1,751)
Executive Administration	183,369	89,600	86,828	2,772
School Administration	131,190	185,850	147,824	38,026
Business	4,250	5,450	4,873	577
Operations and Maintenance	295,900	233,050	316,010	(82,960)
Central Services	-	1,900	1,954	(54)
Other Transactions - Debt	20,000	26,002	47,076	(21,074)
Total Expenditures	1,213,354	1,074,214	1,061,312	12,902
<b>Excess of Revenues (Expenditures)</b>	6,996	(489,352)	(500,283)	(10,931)
<b>Other Financing Sources (Uses)</b>				
Lease Proceeds	-	499,000	77,531	(421,469)
Operating Transfers Out	-	(7,500)	(5,837)	1,663
Total Other Financing Sources (Uses)	-	491,500	71,694	(419,806)
<b>Net Changes in Fund Balances</b>	<u>\$ 6,996</u>	<u>\$ 2,148</u>	(428,589)	<u>\$ (430,737)</u>
<b>Fund Balance - Beginning of Year</b>			-	
<b>Fund Balance - End of Year</b>			<u>\$ (428,589)</u>	

## **Reports on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AND AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

Superintendent and Board of Education  
Bingham Arts Academy Charter School  
555 South Fifth Avenue  
Alpena, MI 49707

We have audited the financial statements of the governmental activities, each major fund and aggregate remaining fund information of the Bingham Arts Academy Charter School, as of and for the year ended June 30, 2005, and have issued our report thereon, dated August 10, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Bingham Arts Academy Charter School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of Bingham Arts Academy Charter School in a separate letter dated August 10, 2005.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 05-1, 05-2, and 05-3.

This report is intended solely for the information of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 10, 2005

**NONCOMPLIANCE WITH STATE STATUTES**

**Expenditures in Excess of Appropriations—Budgetary Funds**

***Finding 05-1***

*Condition:* Our examination of procedures used by the Charter School to adopt and maintain operating budgets for the School's budgetary fund revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act.

The School's 2004-2005 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the activity level. As detailed, actual 2004-2005 expenditures exceeded the board's approved budget allocations for some general fund activities.

During the fiscal year ended June 30, 2005, expenditures were incurred in excess of amounts appropriated in the amended budgets for the general fund on page 26 of the financial statements.

*Criteria:* The expenditures of funds in excess of appropriations are contrary to the provisions of Section 16 of Public Act 2 of 1968, as amended.

*Recommendation:* We recommend that the School and personnel responsible for administering the activities of the various funds of the School, develop budgetary control procedures for the general fund, which will assure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.

*Management's Response—Corrective Action Plan:* Management has agreed to correct the problem by monitoring the budgets more closely and performing budget amendments on a timely basis.

**Investment Policy**

***Finding 05-2***

*Condition:* As of June 30, 2005, the School did not adopt an investment policy.

*Criteria:* Public Act 196 of 1997 requires that an investment policy be adopted by the School Board.

*Effect:* The School is in violation of Public Act 196 of 1997.

*Cause:* Failure to implement investment policy when required.

*Recommendation:* We recommend that the School Board adopt an investment policy in accordance with Public Act 196 of 1997.

*Management's Response—Corrective Action Plan:* The School Board will adopt an investment policy in accordance with Public Act 196 of 1997 during fiscal year 2005/2006.

**Deficit Fund Balance Reduction Plan*****Finding 05-3***

*Condition:* As of June 30, 2005, the following fund had an accumulated fund equity deficit:

<u>Fund</u>	<u>Deficit Fund Equity</u>
General	\$ (428,589)

*Criteria:* Public Act 275 requires that a deficit elimination plan be submitted to the State of Michigan within (90) days of the end of the fiscal year.

*Effect:* The School is in violation of Public Act 275.

*Cause:* Failure to implement a deficit reduction plan when required.

*Recommendation:* We recommend that individual fund statements be reviewed on a periodic basis to determine if any funds have deficit fund equity. Deficits should be addressed in a timely manner. Deficits remaining at year-end require a deficit plan be filed with the State of Michigan within 90 days after year-end. We recommend implementation with Public Act 275.



**ANDERSON, TACKMAN & COMPANY, PLC**  
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**MICHIGAN & WISCONSIN**

**REPORT TO MANAGEMENT**

Superintendent and Board of Education  
Bingham Arts Academy Charter School  
Alpena, Michigan 49707

We have audited the basic financial statements of the Bingham Arts Academy Charter School for the initial period ended June 30, 2005, and have issued our report thereon dated August 10, 2005. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, irregularities, or illegal acts, including fraud and defalcations, may exist and not be detected by us.

As part of our audit, we considered the internal control structure of the Bingham Arts Academy Charter School. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control structure.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Bingham Arts Academy Charter School's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.



### **Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Bingham Arts Academy Charter School are described in Note 1 to the financial statements. We noted no transactions entered into by the Bingham Arts Academy Charter School during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, of transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Bingham Arts Academy Charter School that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We did not propose any adjustments for the fiscal year.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the independent auditors' report. We are pleased to report that no such disagreement arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the School's financial statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Bingham Arts Academy Charter School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

### **Comments and Recommendations**

The following is a summary of our observations with suggestions for improvements and other informational items we believe should be brought to your attention.

#### **Policy Manual**

We encourage the Board to continue to develop and adopt appropriate policies for procurement, investments, credit card usage, etc. to assist in compliance with federal and state grant requirements.

#### **Invoice Authorization**

During our review of invoices, it appeared that all disbursements reviewed indicated adequate support, however, proof of authorization of payment was not indicated by initial or signature on all items. Invoice payment authorization should be indicated on all invoices.

#### **Capitalization Policy**

GASB 34 requires that the Board adopt a capitalization threshold for depreciation of capital assets and infrastructure. The Board currently capitalizes assets above \$1,500; however, this amount should be authorized by Board Policy.

#### **Excess Expenditures**

Public Act 621 of 1978 requires units of government to appropriate funds prior to actual expenditure of funds. The Board exceeded two functional areas in violation of the act. Budgets should be amended prior to year end to comply with the law.

#### **Board Minutes**

During our review of board meeting minutes, it was noted that authorization for certain financial transactions were not mentioned. Events such as opening/closing banks, financing and capital asset purchases should be approved by the board. The board minutes should reflect these decisions.

## **Inventory**

The Food Service fund does not include an inventory for food commodities on hand at year-end as is required by generally accepted accounting principles.

## **Conclusion**

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of any assistance in implementing the above recommendations, please contact us.

The information is intended solely for the use of the Board of Education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

August 10, 2005